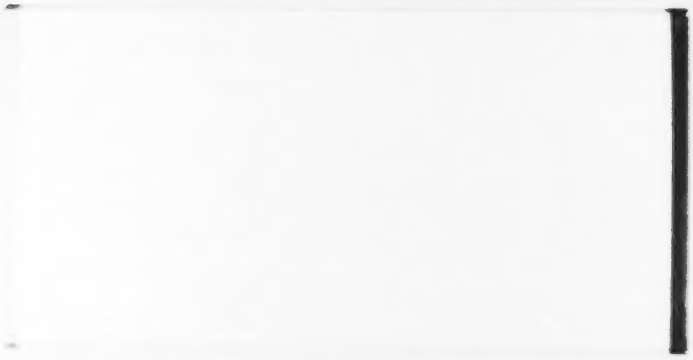

THE SOCIAL PLANNING and RESEARCH COUNCIL of Hamilton and District

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RESPONSE TO

CHILD AND ELDERLY BENEFITS

CONSULTATION PAPER

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A. BACKGROUND

In January, 1985, the Federal Government issued a consultation paper entitled Child and Elderly Benefits in which it outlined two possible options for changes in benefits (particularly in child benefits) and solicited responses from interested parties. These proposals had been foreshadowed in November when Finance Minister Wilson tabled his economic statement (A New Direction for Canada: An Agenda for Economic Renewal) in the House of Commons, at which point a full scale review of social programmes was announced.

Child and Elderly Benefits is only one of a variety of programmes currently being reviewed by the Federal Government (others include housing and Unemployment Insurance). The objectives of the programme reviews (as outlined in the Agenda paper by Michael Wilson) are to ensure that:

> Social responsibility dictates that wherever possible, and to a greater extent than is the case today, scarce resources should be diverted first to those in greatest need.
> Fiscal responsibility suggests that the best income security is a job, and that government expenditures must be allocated to provide immediate employment opportunities and better ensure sustained income growth.

In developing its own proposals around child and elderly benefits, the government developed the following guidelines:

1) The concept of universality is a keystone of our social safety net. Its integrity must not and will not be called into question.

2) The concept of a means test to determine eligibility for selective benefit programs is not appropriate. Eligibility for these programs, such as the Child Tax Credit and the Guaranteed Income Supplement, will continue to be determined on the basis of taxable income.

3) Any savings which may result from program changes will not be applied to a reduction of the deficit.

B. GOVERNMENT OPTIONS FOR CHANGE

In short, the government focused in its proposals on Child Benefits, specifically the Family Allowance (currently $31.27 a month, and universal), child tax exemption and the Child Tax Credit. The child tax exemption reduces taxable income and is, therefore, of greater relative value as income rises. The Child Tax Credit programme is selective and diminishes once a threshold income level is reached.

As currently constituted, the child tax exemption partially offsets the family allowance and child tax credit, so that the differential between low, middle and higher income earners is minimal and, in fact, most advantageous to middle income families. (See Table 1 and Figure 1). The government's proposals attempt to address this less than effective re-distributive impact.

The government's Option A includes:

1) elimination of the child tax exemption

2) an increase in the Child Tax Credit from $367 to $595 and a drop in the threshold level of income where the credit begins to diminish (from the current $26,330 to $20,500).

Its Option B (its preferred approach) entails:

1) reduction of the child tax exemption to $240 from $710

2) reduction of family allowance from $31.27 per month to $20

3) increase in the Child Tax Credit from $367 to $610 and a reduction in the corresponding threshold income from $26,330 to $25,000.

Figures 2 and 3 represent (graphically) these proposals as compared to the current system (assuming 2 parents, 2 children). (The impact would, of course, vary with family type, number of

Table 1

Child Benefits

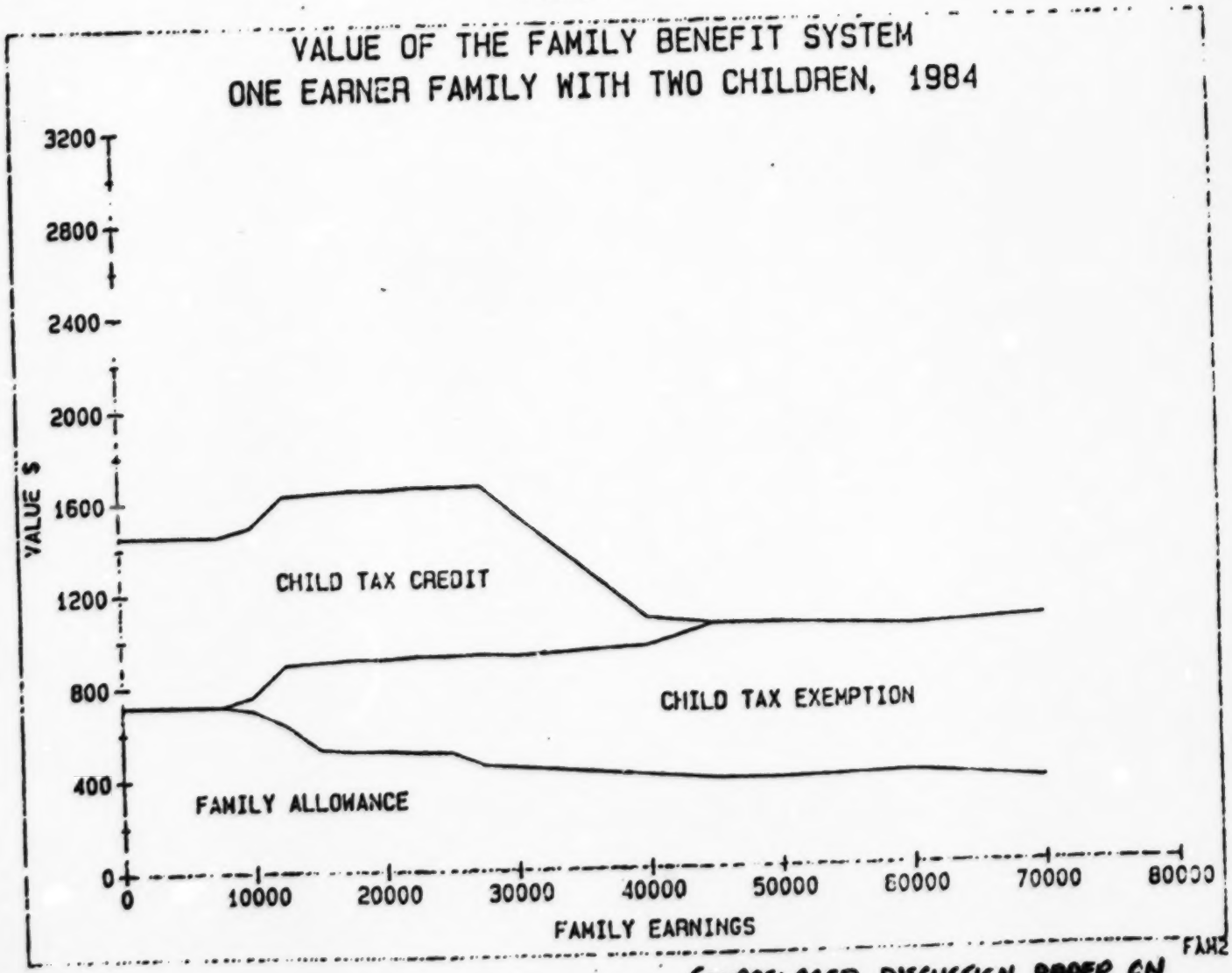
Net Annual Benefits per Child (1984)*

Program	Income $10,000	$20,000	$30,000	$45,000	$80,000
Family Allowances (after taxes)	359	256	235	197	175
Child Tax Exemption	0	203	246	320	363
Child Tax Credit	343	333	303	0	0
Total Net Benefits	702	802	784	517	538

*Benefits received for one-earner two-child families residing in Ontario

SOURCE: NATIONAL HEALTH & WELFARE: CHILD AND ELDERLY BENEFITS CONSULTATION PAPER, p. 17

FIGURE 1



SOURCE: CCSD DISCUSSION PAPER ON SOCIAL SECURITY, 1985: p. 5

children). Under Option A, (Figure 2) while there are increases for lower income earners, (new system vs existing system) benefits begin to decrease dramatically at about an annual income level of $23,000. Under Option B, (Figure 3) low income earners gain less, but loss of benefits to middle income earners doesn't occur until about $28,000.

One of the key issues in the government's proposals, is the relatively small gain to one-earner and single-parent families. This is extremely important since 75% of all poor families in Canada are either headed by single parents, or one-earner heads. Under the government's proposals, single-parent or one-earner families (with two children, for example) gain between $216 and $456 a year only. The principal reason for this is that an additional important tax measure has been neglected by the Government: the spousal deduction, which exists to balance the personal exemption a working spouse can claim. Since deductions are of greater value at higher income levels, the relief to low income earners is lower (see Figure 4). And where a single-parent is claiming the "Equivalent to Married Exemption" (the same as the spousal exemption) for a first child, relief is inversely related to level of income.

C. THE RESPONSE OF THE CANADIAN COUNCIL ON SOCIAL DEVELOPMENT

The CCSD has attempted to address the problem of re-distribution to one-earner and single-parent low income families in its response to the government's proposals by integrating reform of the child benefits (as suggested by the government) with changes to the spousal deduction. The changes proposed by CCSD are as follows:

1. spousal exemption of $3,470 transformed to uniform, refundable tax credit of $1,050;

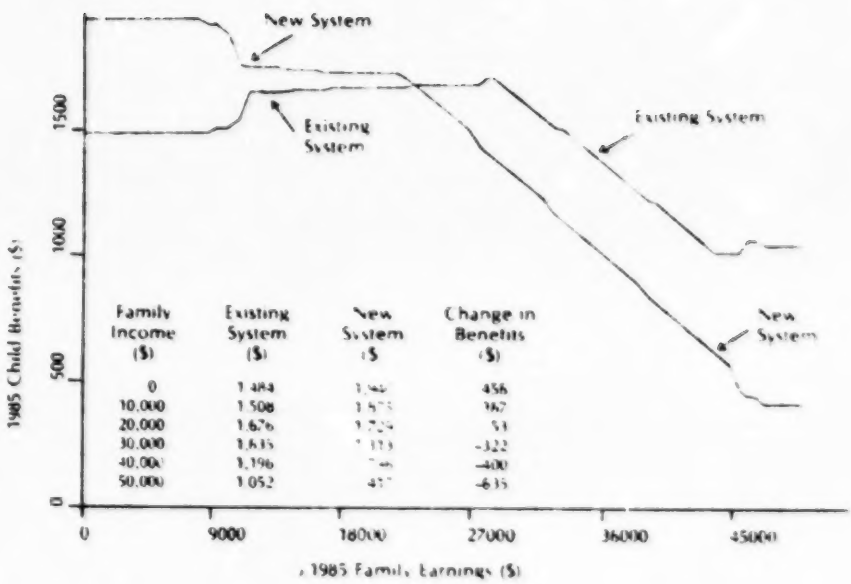
2. child tax exemption ($710 per child) removed and transferred to a new Child Tax Credit program;

3. universal family allowance of $360 per child (for payment purposes, can be merged with monthly benefits flowing from new Child Tax Credit program);

4. portion of benefit that varies with income will be tested against previous year's income (threshold income of $30,000, reduced by .15¢ for each additional dollar of family income - as currently done with Child Tax Credit).

FIGURE 2

GOVERNMENT OPTION A COMPARED TO EXISTING SYSTEM

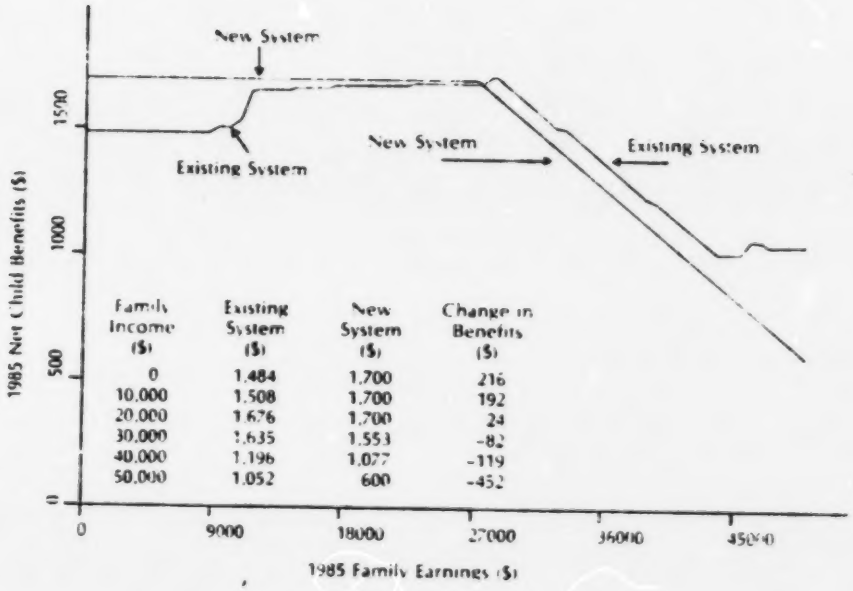


Family Income ($)	Existing System ($)	New System ($)	Change in Benefits ($)
0	1,484	[illegible]	456
10,000	1,508	[illegible]	367
20,000	1,676	[illegible]	53
30,000	1,633	[illegible]	-322
40,000	1,196	[illegible]	-400
50,000	1,052	[illegible]	-635

SOURCE: NATIONAL HEALTH AND WELFARE: CHILD AND ELDERLY BENEFITS CONSULTATION PAPER, P. 27

FIGURE 3

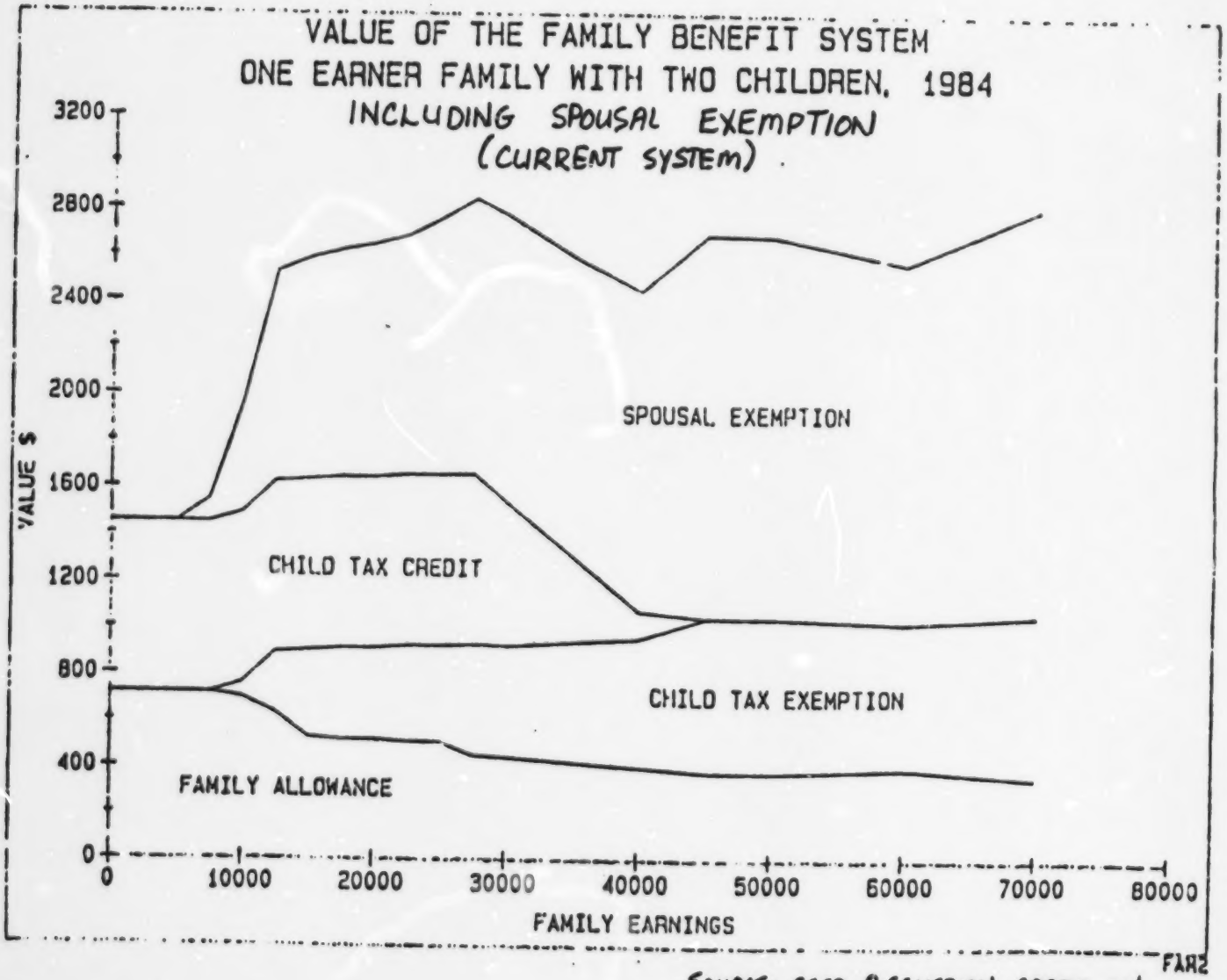
GOVERNMENT OPTION B COMPARED TO EXISTING SYSTEM



Family Income ($)	Existing System ($)	New System ($)	Change in Benefits ($)
0	1,484	1,700	216
10,000	1,508	1,700	192
20,000	1,676	1,700	24
30,000	1,635	1,553	-82
40,000	1,196	1,077	-119
50,000	1,052	600	-452

SOURCE: NATIONAL HEALTH & WELFARE: CHILD AND ELDERLY BENEFITS CONSULTATION PAPER, p. 30

FIG. 4



SOURCE: CCSD, DISCUSSION PAPER ON SOCIAL SECURITY, p. 5

Under CCSD's proposal, all families with children (and childless couples with a non-earning spouse) would automatically receive a monthly benefit cheque labelled "Family Assistance Allowance".

One of the key results of the Council's proposals is the much greater gain for one-earner and single-parent families than permitted under the government's options (ranging from about $1,200 to $1,400, as opposed to $216 to $456).

The CCSD proposal can be contrasted, first, with the existing system of benefits (see Figures 5,6, and 7). As can be seen, low income families receive substantially more than under the present system. Looking at Figure 5 and 7, the full redistributive impacts of the CCSD's proposals can be seen in relation to single-parent or one-earner families (who compose the vast majority of Canada's poor families).

Further, as Figures 5 through 7 indicate, the turning point (where benefits reduce over the present system) is consistently $30,000 or more, putting less of the redistributive costs on to middle income earners and a higher proportion on to high income earners.

However, while the CCSD proposal does have clear advantages over both of the options presented by government, it is not, itself, without problems.

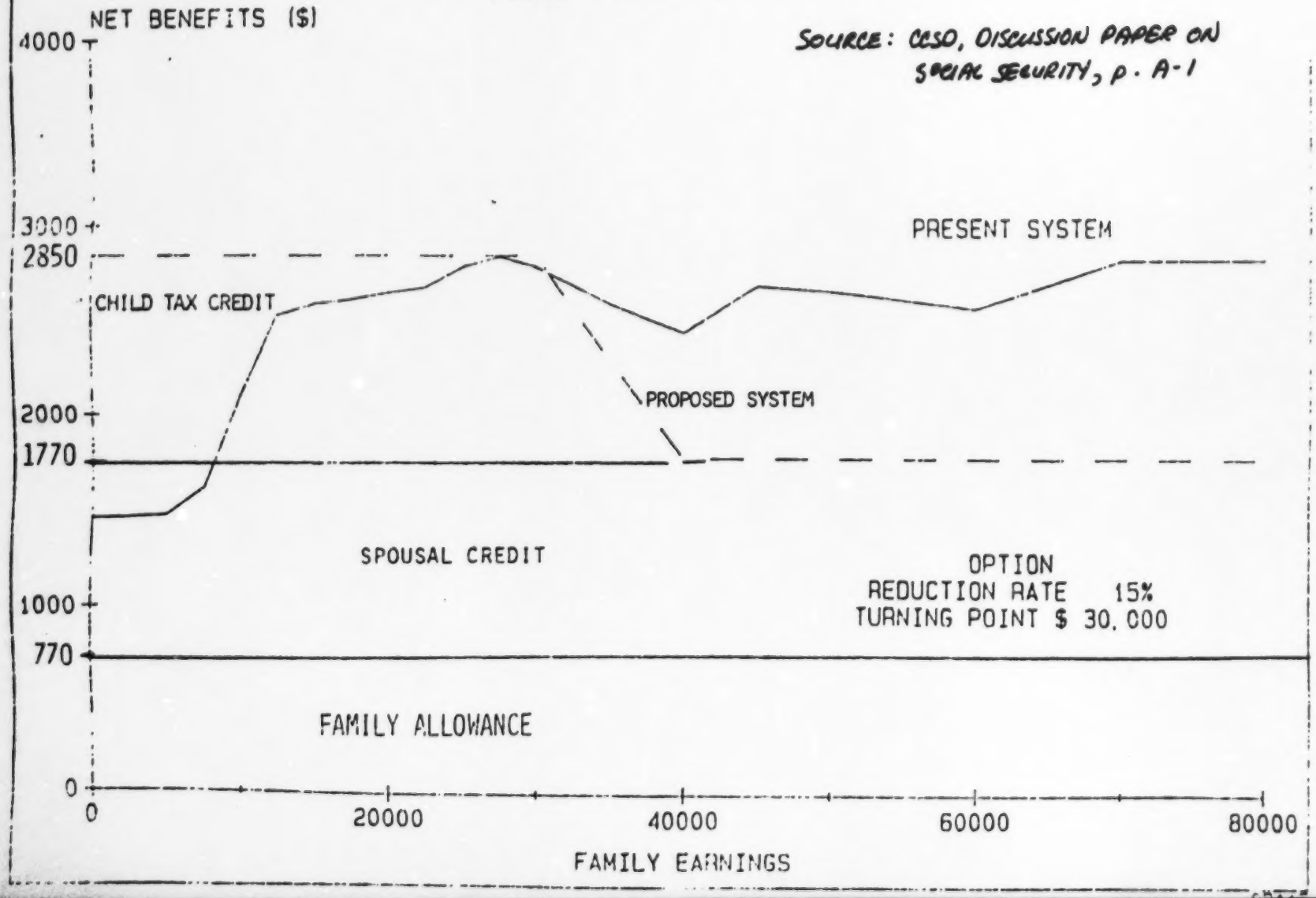
First, low income two-earner families (25% of Canada's poor families) receive less assistance than one-earner or single parent families. This occurs because while the spousal deduction has been transformed into a refundable credit, the personal tax exemptions (used by the two-earners) still delivers little to the two-earner low income family. (Suggesting, possibly, that the government should consider transforming this exemption to a credit).

Second, "a bigger objection to both the Council and Government proposals is that all of the re-distribution which occurs between higher and lower income families as a result of altering child-related benefits occurs within families with children". (CCSD, 1985: Discussion Paper on Social Security, p.11).

The Council, therefore, recommends in its paper that:

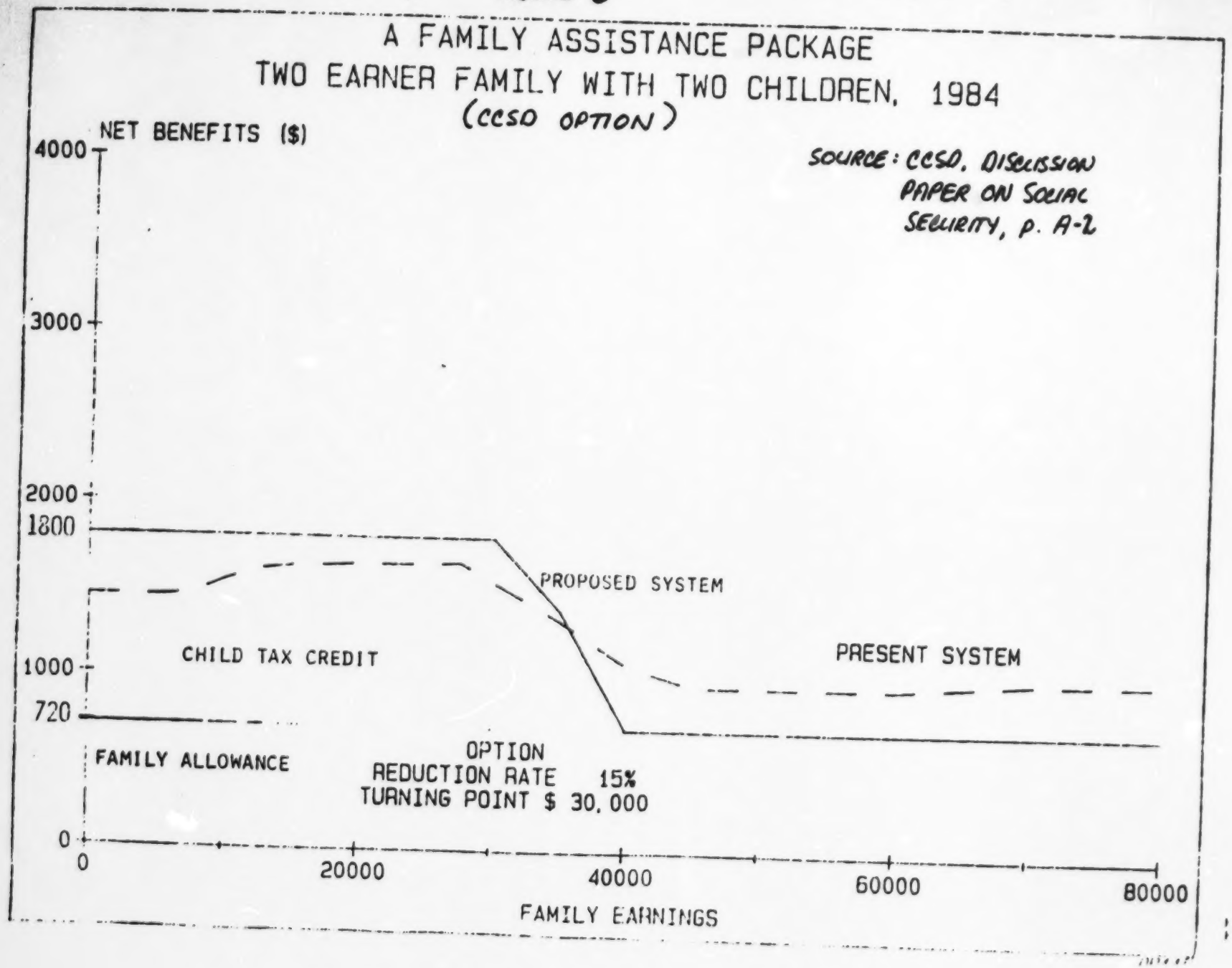
FIGURE 5

A FAMILY ASSISTANCE PACKAGE
ONE EARNER FAMILY WITH TWO CHILDREN, 1984
(CCSD OPTION)



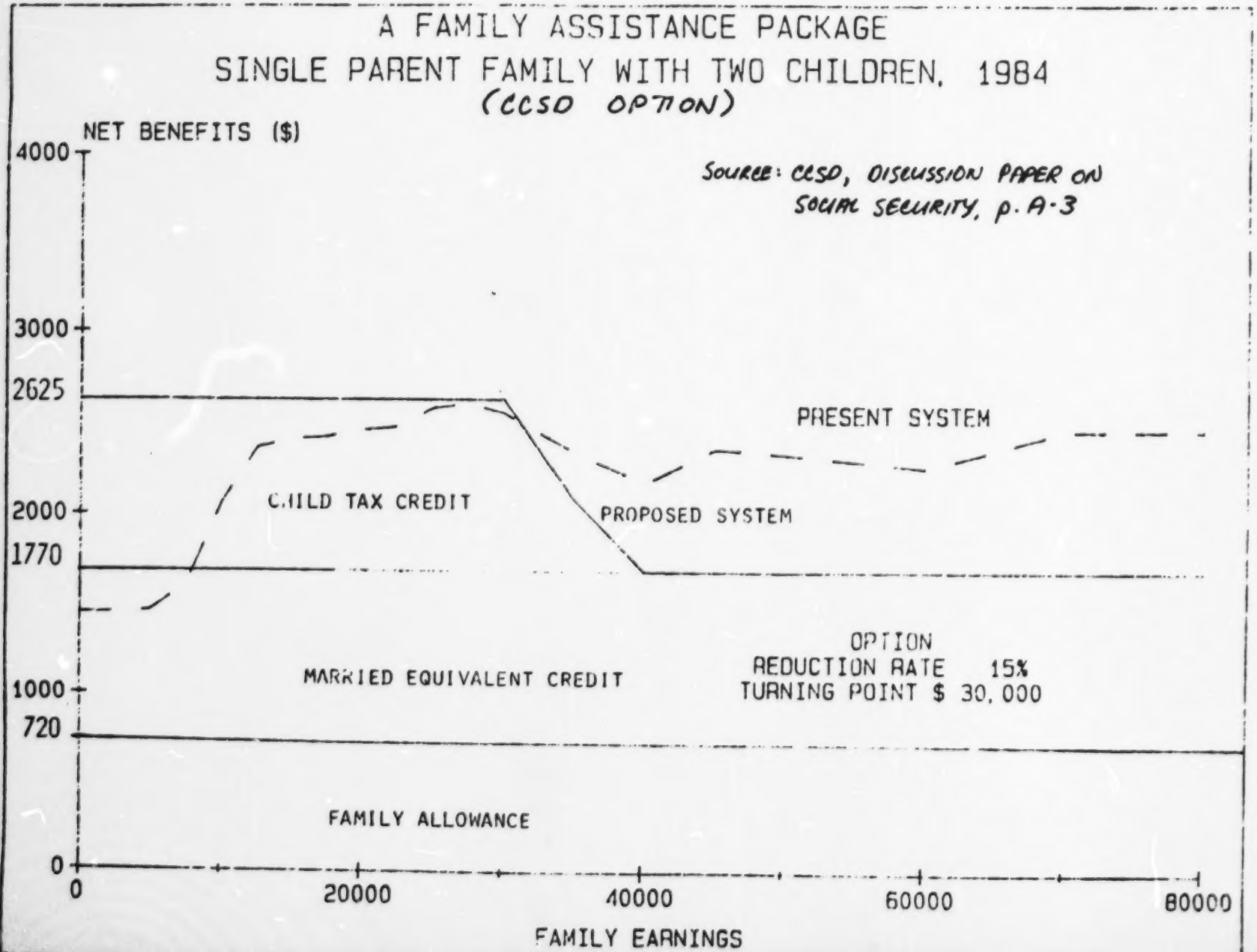
SOURCE: CCSD, DISCUSSION PAPER ON SOCIAL SECURITY, p. A-1

FIGURE 6



SOURCE: CCSD, DISCUSSION PAPER ON SOCIAL SECURITY, p. A-2

FIGURE 7


A FAMILY ASSISTANCE PACKAGE
SINGLE PARENT FAMILY WITH TWO CHILDREN, 1984
(CCSO OPTION)
NET BENEFITS ($)
4000
3000
2625
2000
1770
1000
720
0
0
20000
40000
60000
80000
FAMILY EARNINGS
SOURCE: CCSO, DISCUSSION PAPER ON SOCIAL SECURITY, p. A-3
PRESENT SYSTEM
CHILD TAX CREDIT
PROPOSED SYSTEM
MARRIED EQUIVALENT CREDIT
FAMILY ALLOWANCE
OPTION
REDUCTION RATE 15%
TURNING POINT $ 30,000

> ...either all or some of the personal exemption be eliminated and the tax revenues gained be used to: (i) provide a refundable tax credit to those who are now eligible to claim a personal exemption under the tax act and (ii) to "top up" the child benefit portion of the family assistance allowance package in such a way that the former horizontal income differentials favouring families with children is restored.
>
> (CCSD, 1985: Discussion Paper on Social Security,p.11)

D. SPRC ANALYSIS

a) Preference among Options

Of the three proposals before us (two government, one CCSD), the CCSD proposal would appear to most effectively meet the objectives set out by the government itself:

1) maintains universality

2) scarce resources directed to those in greatest need

3) fiscal responsibility

All proposals meet the first criteria of maintaining universality (Family Allowance). The CCSD proposal, however, provides the most gain to lower income families and has the least impact on middle income families. Finally, each option results in cost-savings to government. The government options result in savings, respectively, of:

	Federal	Provincial
Option A	$80 million	$330 million
Option B	$130 million	$150 million

The CCSD proposal results in savings of:

Federal	Provincial
---	$1,200 million

CCSD notes that:

> While under the current tax sharing structure the provinces "technically" stand to gain $1,200 million annually...it must be remembered that the federal provincial tax-sharing structure will be renegotiated in 1987 and the federal government has a perfect right to negotiate in a manner that keeps the value of family related tax benefits intact and within the family assistance envelope.

Of the three options before us, the CCSD proposal would appear to be the most effective.

b) Poverty

Since the government's objectives during this policy review include more equitable distribution of benefits, it is important to ask whether, and to what extent, any of the proposals address the basic issue of poverty.

CCSD has, itself, acknowledged that:

> Working within the current fiscal framework and transforming the child tax exemption and the Child Tax Credit benefits without adversely affecting families near or below the average income level can only achieve limited results.
>
> (CCSD, 1985, pp. 8-9)

Both the government's and CCSD's proposals must be seen within this context. Essentially, all three Options are "tinkering" with the current system rather than an analytically based "attack on poverty".

1983 calculations (Statistics Canada) indicate that, for Hamilton and area, in most cases, poverty lines exceed the projected new benefits plus income under any of the three options:

1983 Poverty Lines
for Municipal Area the Size of Hamilton

Family Size	Poverty Line Income
1	$8,955
2	$11,807
3	$15,711

The SPRC has, for some time, been calling on the Federal government to institute a review of the concept of Guaranteed Annual Income as a mechanism for combatting poverty in our communities. While "tinkering" with the system does, to some degree, provide selective relief, it does not, nor is it intended, to address the issue of structural inequality. Therefore, in supporting, or endorsing, any option for change in Child/Family Benefits, it is important to recognize the limited usefulness of such changes.

E RECOMMENDATIONS

The Social Planning and Research Council of Hamilton & District:

i) states its concern that the kind of change the Federal Government is exploring, while providing some relief to the poor in Canada, is inadequate and ineffective in addressing the underlying structural problem of poverty in our society, and;

ii) calls on the Federal Government to institute a comprehensive review of the concept of Guaranteed Annual Income as one of its social development priorities, and;

iii) while recognizing, the limited change resulting from a restructuring of Child benefits, endorses the recommendations of the Canadian Council on Social Development in its proposals for a Family Assistance Allowance (as contained in its Discussion Paper on Social Security) and emphasizes that in our opinion, the CCSD option more effectively meets the objectives of

the Federal Government's review of child benefits than do those of the Government, and;

iv) calls on the Government to develop an ongoing mechanism for consultation, including meaningful feedback, in the first instance to determine the redeployment of savings generated through changes in child benefits and, in the second instance, to ensure effective public participation in all social policy review.